



# **Denali Commission Policy Rural Alaska Energy Infrastructure Criteria for Sustainability**

Issued April 26, 2002

Ownership of infrastructure facilities funded by the Denali Commission (hereafter "Commission") may be divided between Primary and Secondary Owners. For example, in the case of bulk fuel tank farms, one entity may own the underlying land, foundation, dike, liner, fill lines and several tanks. This entity is referred to herein as the "Primary Owner." Other entities may own specific tanks and related equipment within the facility and may operate and maintain such tanks and equipment pursuant to a Commission approved lease agreement or occupancy agreement with the Primary Owner. These other entities are referred to herein as "Secondary Owners." Compliance with the attached sustainability criteria is the responsibility of the Primary Owner. If any of the Secondary Owners are out of compliance with these criteria, it is the responsibility of the Primary Owner to enforce the provisions of its lease agreements or occupancy agreements so that full compliance is achieved.

Failure to comply with the attached sustainability criteria will result in the transfer of project assets to an agreed upon "Secondary Operator" to protect the assets and provide sustainable service. A Secondary Operator is an organization that, in the judgment of the Denali Commission, either meets these sustainability standards or is capable of meeting them, and is willing to mentor the primary owner and if necessary take responsibility for the operation and maintenance of the subject assets. For example, the Yukon Fuel Company and Crowley Marine Services are potential Secondary Operators for bulk fuel facilities that the Commission considers sustainable.

Before construction funds will be advanced, the following conditions must be met:

1. Community leadership must be consulted and educated on the sustainability requirement;
2. Community leadership must be consulted and educated on any long-term implications the community will experience as a result of the new facility, such as changes in the retail price of fuel or electric service, water, sewer, solid waste disposal, etc.;
3. Community leadership must be consulted and educated on available design alternatives, and should be empowered to make the trade-off decisions that affect the reliability and cost of the project for their community;
4. Primary Owners must have a business and work plan that is approved by the Denali Commission that includes provision for adequate preventive and scheduled maintenance, an annual budget showing expenditure detail and adequate sources of revenue, a ten-year capital replacement and expansion plan, and a ten-year financial forecast. The Commission's design and construction agent (e.g. Alaska Energy Authority) will be responsible for helping Primary Owners prepare the business and work plan required in advance of project construction.

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5. The Primary Owner and a Secondary Operator must agree in writing to the assistance the Secondary Operator will provide the Primary Owner, and to cooperate on the transfer of project assets if required by the Denali Commission in the event that the Primary Owner is found to be out of compliance with the sustainability criteria. Such cooperation must include payment from the Primary Owner to cover the incremental costs incurred by the Secondary Operator to operate and maintain the assets. With the original Secondary Operator's consent, other Secondary Operators may be considered in the future. The Denali Commission will assist in preparing the transfer agreement between the Primary Owner and the Secondary Operator.

After the project has been placed in service, the Denali Commission will be responsible for monitoring compliance with the sustainability criteria and for enforcement of its terms, including any future transfer of operational responsibility for project assets. Within the limits of available training funds, the Denali Commission will provide financial support for needed training and assistance, including mentoring provided by the Secondary Operator to meet these sustainability criteria.

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**Attachments:** The Criteria For Sustainability of Bulk Fuel Facilities  
The Criteria for Sustainability of Electric Utility Systems

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#### **The Criteria For Sustainability of Bulk Fuel Facilities:**

1. The bulk fuel storage facility is being operated in substantial conformance with a Commission approved business and work plan where adequate revenue will be available to cover all expenses and provide for renewal and replacement of plant to be financed by debt, equity, or a combination of debt and equity, plus a margin that is consistent with its long-range financial needs. A renewal and replacement fund will be established and sufficient funds will be accrued to cover the projected costs of major repairs, renovations, renewals, and replacement of major plant components. Owners may anticipate that interest earnings from the Trans Alaska Pipeline Liability Fund (TAPL) will be available over the long term to help finance bulk fuel plant replacement and expansion.
2. The bulk fuel storage facility is in compliance with the laws and regulations that govern its operation.
3. Adequate preventive and scheduled maintenance is provided, facility inspections and leak tests are conducted as required by regulation, and the facility is kept in good condition and repair.
4. The Primary Owner maintains separate accounts for the tank farm operation and arranges for annual financial audits of these accounts. The audits are conducted by qualified, independent auditors and consistently find that there are no significant financial irregularities.
5. The Primary Owner is not in default with respect to any of its financial obligations, including debts, taxes, or other established liabilities.
6. Fuel surcharges and other means of generating revenue for tank farm operations payable by each tank farm occupant are based exclusively on the cost of such operations and are proportional to each tank farm occupant's use of the facility.
7. Adequate business insurance is in place that covers all significant risks. Self-insurance will be allowed for specific risks provided the Primary Owner can clearly demonstrate how adequate funds would be made available in a timely fashion to satisfy possible claims.
8. A credible business and work plan for the facility is prepared or updated no less frequently than once every five years. The business and work plan includes provision for adequate preventive and scheduled maintenance, an annual budget showing expenditure detail and adequate sources of revenue, a ten-year capital replacement and expansion plan, and a ten-year financial forecast.
9. Formal agreements are in place between the Primary Owner and any Secondary Owners that provide for the proper operating procedures and necessary maintenance to occur within the facility at all times, and that commit the Secondary Owners to cooperate as necessary with the Primary Owner in meeting the sustainability criteria set forth above.

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**The Criteria For Sustainability of Electric Utility Systems:**

1. The utility is operating in substantial conformance with a business and work plan under a margin that is consistent with its long-range financial needs. A renewal and replacement fund will be established and sufficient funds will be accrued to cover the projected costs of major repairs, renovations, renewals, and replacement of major plant components.
2. The utility system is in compliance with the laws and regulations that govern its operation.
3. The utility provides for adequate preventive and scheduled maintenance of its facilities, and keeps its facilities in good condition and repair.
4. The utility arranges for annual financial audits that are conducted by qualified, independent auditors and which consistently find no significant financial irregularities.
5. The utility is not in default with respect to any of its financial obligations, including debts, taxes, or other established liabilities.
6. Rates are based on cost of service such that no customer class subsidizes another to a significant extent, and the risks of possible loss of large consumers are minimized by power sales agreements that protect the economics of a utility's operations.
7. The utility maintains adequate business insurance covering all significant risks. Self-insurance will be allowed for specific risks provided the utility can clearly demonstrate how adequate funds would be made available in a timely fashion to satisfy possible claims.
8. The utility has a credible business and work plan that is updated no less frequently than once every five years and that includes provision for adequate preventive and scheduled maintenance, a ten-year capital replacement and expansion plan, a ten-year financial forecast, and a rate structure analysis.
9. In the case of joint ventures, the utility has sufficient management control or other contractual safeguards with respect to the construction and operation of jointly owned facilities to ensure that the utility's interests are protected and the utility lender's credit risk is minimized.
10. Where rates or investment decisions are subject to approval by regulatory authorities, there is reasonable expectation that such approvals regarding development of the project will be forthcoming.